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AUTOCROWN CORPORATION LIMITED

ANNUAL REPORT 1973

AUTOCROWN CORPORATION LIMITED

DIRECTORS	Alan H. Frankel Richard C.W. Mauran Hardy E.R. Merker Terence A. Wardrop William Tynkaluk
OFFICERS	Hardy E.R. Merker, President Richard C.W. Mauran, Vice President Terence A. Wardrop, Secretary
TRANSFER AGENT	National Trust Co. Ltd., Toronto, Ontario
OFFICE OF COMPANY	266 Rexdale Blvd., Rexdale, Ontario

March 20th, 1974.

To The Shareholders;

This year has been the most important and eventful year in the history of our company.

We have completed the acquisition of Canadian Grinding Wheel and are well under way in our program to modernize the manufacturing facility and strengthen our management team.

The first quarter results indicate an increase in both sales and profitability. These imporvements will be reflected in the consolidated statements which will be available at our Annual Meeting to be held in April.

As you are aware, Canadian Grinding Wheel is the largest Canadian owned manufacturer of grinding wheels. Our plans for 1974 are directed to improving our manufacturing and sales capabilities. Harry Jolley has joined our staff. Harry has considerable experience in the manufacturing of grinding wheels, teamed with Ron Phelps, we have a formidable manufacturing team with many years of experience in the industry.

The Safeguard Sprinkler division was reorganized in September, 1973, and through the efforts of Bill Jay and his team, sales and profits have notably increased.

The need for fire protection sprinkler systems has been brought to the forefront in recent months with the increased number of fires in older unsprinklered high-rise buildings. All indications point to impressive growth in this industry in the coming years as more and more high-rise buildings are being engineered with sprinkler systems.

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Again, profits and sales are showing steady improvement.

Sales increased by 30% in our Eastern and Taymer Divisions. However, the costs of doing business increased; primarily raw materials; yet we were unable to increase our selling price until September, 1973, and again in January, 1974. The effects of these price increases will be evident in the new year.

Our first quarter profits have shown substantial increases. Raw materials remain in short supply, particularly plastics; the word "Quota" has become a common word in most manufacturing concerns.

The overall profitability of the company has increased dramatically with our acquisitions and these will be reflected in our published results during the 1974 year.

We look toward 1974 optimistically with a goal of "Growth" in both sales and profitability.

On behalf of the Board of Directors,

H. Merker,
President

HM; dc

Again, profits and sales are showing steady improvement.

Sales increased by 30% in our Western and Ontario Divisions. However, the costs of doing business increased primarily raw materials, and we were unable to increase our selling price until September, 1973, and again in January, 1974. The effects of these price increases will be evident in the new year.

Our first quarter profits have shown substantial increases. Raw materials remain in short supply, particularly plastics; the word 'Quota' has become a common word in most manufacturing concerns.

The overall profitability of the company has increased dramatically with our acquisitions and these will be reflected in our published results during the 1974 year.

We look toward 1974 optimistically with a goal of "Growth" in both sales and profitability.

On behalf of the Board of Directors,

H. [illegible],
President

[illegible]

Information covering the various divisions and subsidiaries of Autocrown Corporation Limited.

AUTOCROWN CORPORATION LTD.
DIVISIONS

Taymer Industries

Designs and manufactures the Exacto-Mark sequential marking and measuring machine, and other equipment for the wire and cable industry. There are 300 Exacto-Mark machines in operation in over 13 countries around the world.

Eastern Wire & Conduits

This division manufactures Rayflex aluminum and steel flexible metallic and Hydrotite liquid tight conduit for the electrical construction industry. These products are used for mechanical protection of electrical conductor raceways. Some applications include electrical lighting and machinery wiring. These products are sold around the world including U.S.A., England, Continental Europe.

In addition, this division produces "Vinarail" plastic hand rail covering for use in the construction industry.

Industrial Trading Division

Imports and exports wire products of all types.

Safeguard Sprinkler Division

Designs and installs sprinkler systems for both new and old buildings. All the sales for this division are currently in Canada.

Canadian Grinding Wheel Ltd.

This latest acquisition manufactures a wide range of abrasive wheels and stones used throughout industry. Sales are primarily in Canada. However, future expansion includes plans to broaden both the products and the marketing areas.

AUTOCROWN CORPORATION LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 1973

Clarkson, Gordon & Co.

Chartered Accountants

Royal Trust Tower
P.O. Box 251, Toronto-Dominion Centre
Toronto, Canada, M5K 1J7

St. John's Halifax Saint John Quebec Montreal
Ottawa Toronto Hamilton Kitchener London
Windsor Thunder Bay Winnipeg Regina Calgary
Edmonton Vancouver Victoria

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AUDITORS' REPORT

To the Shareholders of
Autocrown Corporation Limited:

We have examined the consolidated balance sheet of Autocrown Corporation Limited and its subsidiaries as at September 30, 1973 and the consolidated statements of income, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at September 30, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.

Toronto, Canada,
March 7, 1974.

Chartered Accountants

AUTOCROWN CORPORATION LIMITED

(Incorporated under the laws of Ontario)
and its subsidiaries

CONSOLIDATED BALANCE SHEET

SEPTEMBER 30, 1973
(with comparative figures at September 30, 1972)

ASSETS

	1973	1972
Current:		
Cash and short-term investments of subsidiaries	$ 123,893	
Accounts receivable	439,551	$135,291
Inventories, at the lower of cost and net realizable value -		
Raw materials	170,796	51,927
Work in process	87,255	83,532
Finished goods	226,606	153,021
	484,657	288,480
Prepaid expenses	12,409	5,339
Total current assets	1,060,510	429,110
Long-term lease contracts receivable net of unearned discount of $19,254 (less current portion included with current accounts receivable)	33,175	
Fixed, at cost:		
Land	49,946	
Buildings	180,347	
Machinery and equipment	436,202	153,214
Automotive equipment	43,039	10,301
Office furniture and fixtures	10,430	10,107
Leasehold improvements	7,655	7,655
	727,619	181,277
Less accumulated depreciation	377,682	75,008
	349,937	106,269
Patents, at cost less amounts written off	1	1
	$1,443,623	$535,380

LIABILITIES

	1973	1972
Current:		
Bank indebtedness of parent company (note 3)	$ 122,981	$ 98,189
Accounts payable and accrued charges	253,960	88,374
Payable to vendors of Canadian Grinding Wheel Company Limited (note 2)	27,000	
Current portion of long-term debt (note 3)	137,400	12,310
Total current liabilities	541,341	198,873
Long-term debt (note 3)	582,892	74,377
Shareholders' equity:		
Capital (note 4) -		
Authorized:		
155,065 5% non-cumulative, convertible preference shares with a par value of $2.00 each, redeemable at par		
1,094,935 common shares without par value		
Issued:		
145,065 preference shares	290,130	290,130
679,935 common shares	645,567	645,567
Contributed surplus	68,381	68,381
Deficit (statement 2)	(684,688)	(741,948)
	319,390	262,130
	$1,443,623	$535,380

On behalf of the Board:

Director

Director

(See accompanying notes to consolidated financial statements)

AUTOCROWN CORPORATION LIMITED
and its subsidiaries

CONSOLIDATED STATEMENT OF DEFICIT

FOR THE YEAR ENDED SEPTEMBER 30, 1973
(with comparative figures for the year ended September 30, 1972)

	1973	1972
Retained earnings (deficit), beginning of year	$(741,948)	$ 24,575
Add (deduct):		
Net income (loss) for the year (statement 3)	57,260	(724,600)
Expenses of share issue		(41,923)
Deficit, end of year	$(684,688)	$(741,948)

(See accompanying notes to consolidated financial statements)

STATEMENT 3

AUTOCROWN CORPORATION LIMITED
and its subsidiaries

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED SEPTEMBER 30, 1973
(with comparative figures for the year ended September 30, 1972)

	1973	1972
Net sales	$1,313,014	$ 991,606
Deduct:		
Cost of products sold	921,114	664,007
Selling expenses	191,039	158,558
Administrative expenses	105,116	86,006
Depreciation	18,022	18,785
Interest on current bank indebtedness	8,848	9,779
Interest on long-term debt, including amortization of discount - $5,484 in 1973; $3,500 in 1972	11,615	3,500
	1,255,754	940,635
Income before income taxes and extraordinary items	57,260	50,971
Provision for income taxes (note 5)	25,800	19,600
Income before extraordinary items	31,460	31,371
Extraordinary items:		
Recovery of income taxes resulting from carry forward of prior years' losses (note 5)	25,800	
Write-off of deferred development expenditures (net of deferred income tax credits of $77,000)		(704,489)
Write-off of goodwill		(51,482)
	25,800	(755,971)
Net income (loss) for the year	$ 57,260	$(724,600)
Earnings (loss) per common share (note 6):		
Income before extraordinary item -		
Basic	$.046	$ .046
Fully diluted	$.038	$ .038
Net income (loss) -		
Basic	$.084	$(1.069)
Fully diluted	$.068	$(1.065)

(See accompanying notes to consolidated financial statements)

AUTOCROWN CORPORATION LIMITED
and its subsidiaries

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 1973
(with comparative figures for the year ended September 30, 1972)

	1973	1972
Source of funds:		
Operations -		
Income before extraordinary items	$ 31,460	$ 31,371
Charges (credits) not affecting working capital:		
Depreciation	18,022	18,785
Provision for deferred income taxes	25,800	19,600
Amortization of discount on debentures	5,485	3,500
Amortization of discount on lease receivables	(2,575)	
	78,192	73,256
Working capital of acquired businesses at date of acquisition -		
Canadian Grinding Wheel Company Limited	343,365	
Safeguard Sprinkler Systems	9,605	
Current instalments on lease receivables	10,148	
	441,310	73,256
Application of funds:		
Purchase of fixed assets (net)	14,978	5,036
Deferred development expenditures		340
Current instalments due on long term debt	137,400	12,310
	152,378	17,686
Increase in working capital	288,932	55,570
Working capital, beginning of year	230,237	174,667
Working capital, end of year	$519,169	$230,237

(See accompanying notes to consolidated financial statements)

AUTOCROWN CORPORATION LIMITED
and its subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 1973

1. Principles of consolidation

The consolidated financial statements for 1973 and 1972 include the accounts of the company and all of its subsidiaries. The subsidiaries are -

Autocrown Corporation Inc., which carries on business in the United States.

Canadian Grinding Wheel Company Limited, which was acquired effective August 31, 1973, its fiscal year end (see note 2).

Taymer Industries Limited and
Eastern Wire and Conduits Limited, which have no assets or liabilities and did not operate in 1973 or 1972.

The assets and liabilities of the U.S. subsidiary have been translated into Canadian dollars at year end rates of exchange and its earnings at average rates of exchange prevailing during the year. The net gain on translation has been credited to income.

The earnings of Canadian Grinding Wheel Company Limited for the month of September 1973 have not been included in the consolidation.

2. Acquisitions

(a) Canadian Grinding Wheel Company Limited (CGW) -

Effective August 31, 1973, the company acquired all of the outstanding shares of CGW, a manufacturer of grinding wheels. The acquisition has been accounted for using the purchase method of accounting. Particulars of the consideration given and the net assets acquired were as follows:

Consideration given:		
Cash paid on closing, financed by issuance of long term debt (note 3)		$450,000
Amount due in 1974		27,000
Non-interest bearing debentures due 1974-1978 (note 3)		139,755
Expenses of acquisition		16,706
Fair value of consideration given		$633,461
Net assets acquired:		
Book value of assets		$529,591
Book value of liabilities		35,488
		494,103
Adjustment of fixed assets to fair values at date of acquisition -		
Land	44,000	
Buildings	43,000	
Machinery and equipment	52,358	139,358
Net assets at fair value		$633,461

The consideration for the shares of CGW may increase by up to a maximum of $44,000 contingent on collection of accounts receivable of CGW which were written off at date of acquisition.

(b) Safeguard Sprinkler Systems (Safeguard) -

Effective October 6, 1972, the company acquired the net operating assets of Safeguard Sprinkler Systems Limited, which installed and leased fire protection systems, for a consideration of $50,675, being the discounted value of the $80,000 non-interest bearing convertible debentures issued in payment (see note 3). Safeguard Sprinkler Systems Limited was controlled by a shareholder of Autocrown at the time of the acquisition. The net assets acquired included long term lease receivables discounted to present value of $40,748 and other assets (net) of $9,927.

3. Long term debt

		1973	1972
11½% debenture, payable in monthly instalments to 1981		$300,000	
Bank term loan payable in quarterly instalments to 1976, bearing interest at 2% above the lender's prime rate		150,000	
Non-interest bearing debenture payable to the vendors of CGW in annual instalments to 1978	175,000		
Less unamortized discount reflecting an imputed after tax interest rate of 8%	35,245	139,755	
12% (10% in 1972) debenture due 1978 to 1980	100,190		
Less unamortized discount on issuance (1972 - $25,813)	22,312	77,878	$86,687
Non-interest bearing unsecured convertible debentures due in annual instalments to 1982 (b)	80,000		
Less unamortized discount reflecting an imputed after tax interest rate of 6%	27,341	52,659	
		720,292	86,687
Less principal payments due within one year, included in current liabilities		137,400	12,310
		$582,892	$74,377

(a) Security -

The 11½% debenture is secured by a specific first charge on fixed assets, a pledge of the shares of CGW, and a first floating charge on all other assets of the companies.

Current bank indebtedness and the bank term loan are secured by a pledge of accounts receivable plus a second floating charge on all other assets of the companies.

The non-interest bearing debenture payable to the vendors of CGW is secured by a third floating charge on the assets of CGW.

The 12% debenture is secured by a third floating charge on the assets of the parent company.

(b) Convertible debentures -

The non-interest bearing convertible debentures are convertible into common shares of the company at any time prior to maturity on the basis of one common share for each $2.00 of principal outstanding. Required annual sinking fund instalments are the greater of $8,000 or 50% of the increase in the working capital of the Safeguard division of the company.

(c) Principal payments in the next five years -

Minimum principal payments on long term debt in the next five fiscal years are as follows:

1974	$137,400
1975	132,600
1976	62,600
1977	91,000
1978	128,000

(d) Restrictive convenants -

Included in the various restrictive covenants imposed by the secured debentures is a requirement that consolidated working capital shall not be less than $50,000. In addition, the unsecured convertible debentures prohibit the payment of dividends and the redemption or purchase for cancellation of the company's shares.

4. Share capital

The preference shares are convertible into common shares at the option of the holder on a share for share basis.

At September 30, 1973, unissued common shares of the company are reserved as follows:

	Number of shares
(a) For possible issuance on conversion of preference shares	145,065
(b) For possible issuance on exercise of share purchase warrants entitling the holders to purchase common shares at a price of $3.00 per share up to December 30, 1983	175,000
(c) For possible issuance on conversion of the debentures referred to in note 2(b)	40,000
	360,065

5. Income taxes

The provision for income taxes in 1973 is based on the income which would have been subject to tax without the benefit of prior years' loss carry-forwards. The tax reduction resulting from the carry-forward of these losses is shown as an extraordinary credit in the consolidated statement of earnings.

At September 30, 1973, the company and its subsidiaries have prior years' losses totalling $366,000 available for carry-forward as deductions against future years' taxable profits, expiring as follows:

1974	$ 6,000
1975	23,000
1976	18,000
1977	4,000
Unlimited carry-over period	315,000
	$366,000

6. Earnings (loss) per common share

No dividends were declared on the non-cumulative preference shares in 1973 and 1972. If such dividends had been declared, the earnings per common share would have been reduced.

Fully diluted earnings per common share have been computed on the assumption that all of the preference shares had been converted into common shares as of the beginning of the year.

7. Remuneration of directors and senior officers

Remuneration of directors and senior officers (as such are defined under The Business Corporations Act, 1970) was $62,600 in 1973 and $63,400 in 1972.

8. Commitments and contingencies

The company is committed under a long-term lease on the Rexdale premises to rentals of $26,000 a year to 1978.

The company is contingently liable in the amount of $58,000 in respect of long term lease receivables discounted with finance companies.